

House Committee on Ways and Means

April 21, 2014

Hearing on the Benefits of Permanent Tax Policy for America's Job Creators

**Written Comments and
Statement for the Record
of the**



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April 21, 2014

Ways and Means Committee Office
1102 Longworth House Office Building
Washington, D.C. 20515

Re: Comments for the House Committee on Ways and Means' Hearing on the Benefits of Permanent Tax Policy for America's Job Creators

On behalf of the Association of Fundraising Professionals (AFP), I am pleased to provide a written statement regarding expiring tax provisions, particularly the IRA Rollover provision that creates a unique charitable giving incentive. AFP represents the individuals responsible for generating philanthropic funds, so we have a unique understanding of the impact of charitable giving and giving incentives.

We hope our thoughts and perspective will prove helpful to the House Committee on Ways and Means as it continues to review expired tax provisions such as the IRA Rollover provision.

Organizational Background

AFP is the largest nonprofit association in the U.S. that represents fundraisers in all 50 states. Fundraising serves as the engine that drives the charitable sector by developing and maintaining relationships with donors and philanthropists who provide the necessary funding for education, social services, healthcare, medical research and the many other altruistic functions provided by the sector.

Fundraising complements governmental support for charities and ensures the survival of the charitable sector when state, local and federal governments lack the budgetary means to help. AFP fosters development and growth of fundraising professionals through training and education and promotes high ethical standards in the fundraising profession.

Reenact and Make Permanent the IRA Rollover Provision

We urge Congress to enhance charitable giving by reenacting the IRA Charitable Rollover provision, which expired at the end of 2013. This provision allows donors age 70½ and older to exclude from their taxable income any IRA funds up to \$100,000 that have been withdrawn and transferred to a charity when filing a tax return. The provision was originally enacted as part of the Pension Protection Act of 2006 and was reinstated a number of times, most recently in January 2013 as part of the American Taxpayer Relief Act.

Tax incentives such as the IRA Charitable Rollover provision play a vital role in encouraging donors to make gifts, especially as the contribution amounts become larger. The rollover

provision is a powerful and unique way that donors can support charitable causes in their communities.

Private donations help leverage the impact of government investments and allow charities to provide the programs and services that do much to augment the work of the government. In that sense, the IRA Rollover provision reduces the burden on the government to help those less fortunate, and the proceeds of the donations both increase the purchase of goods such as food and equipment and help many of our citizens regain their footing (emotionally, professionally and financially), all of which spurs economic prosperity and sparks the growth of taxable revenue.

Many individuals have more than sufficient funds to retire comfortably. In addition, individuals are encouraged under the current tax laws to liquidate their IRAs during their lifetime since their estates will face confiscatory tax rates of up to 80 percent if their IRA funds are left to a dependent or family member (other than their spouse). Any amounts left in an IRA when an individual dies may be taxed as income to the beneficiary and are also considered assets for the purposes of calculating that individual's estate tax liability.

It is estimated that there is more than \$3 trillion in retirement funds such as IRAs. Even if only a small percentage of these funds were donated to charitable purposes, it could add millions of dollars to support the vital work that nonprofit organizations do in communities across America. In fact, these contributions support programs for those less financially well-off through important services, such as those provided by health, education, social service and cultural organizations.

The IRA Charitable Rollover has worked very successfully over the last few years, but it would be far more effective if it were made permanent. Because donors are unable to count on the IRA Rollover being in effect every year, they rarely plan ahead to set aside funds to utilize the provision. Similarly, charities and financial planners cannot counsel donors about the IRA Rollover provision given the almost annual uncertainty surrounding it. We believe that the provision's impact could reach billions of dollars annually if it were made permanent or at least extended much longer than one or two years.

Making the IRA Rollover provision permanent simplifies the tax code. During a Senate Finance Committee hearing on March 30, 2011, titled "How Do Complexity, Uncertainty and Other Factors Impact Responses to Tax Incentives?," hearing panelist Robert Carroll, Former Deputy Assistant Secretary for Tax Analysis, U.S. Department of the Treasury, stated the following:

There are also a large number of provisions – expiring provisions – often extended a year at a time. In principle, the periodic extension of expiring provisions provides Congress an opportunity to reconsider and reevaluate their effectiveness, but the lack of their permanence may undermine the ability of taxpayers to rely upon and base decisions on the benefits they provide. Moreover, expiring provisions are no longer limited to several dozen business tax provisions, but now also include the alternative minimum tax (AMT) patch and the 2001 and 2003 tax cuts. The result is a tax system where large portions of the Code are in effect temporary.

During his oral testimony, Dr. Carroll noted that these temporary provisions within the tax system—provisions that are constantly expiring and subsequently extended—add to the complexity of the tax system, which increases the bureaucratic burden on taxpayers and the federal government.

By making the IRA Rollover provision permanent, you would simplify the tax code and reduce the need for the federal government's services for those less fortunate while exponentially enhancing charitable giving.

We look forward to working with you and your staff on this issue and on any other issues affecting the charitable sector.

Sincerely,

A handwritten signature in black ink, appearing to read "Andrew Watt", with a stylized flourish at the end.

Andrew Watt, FInstF
President & CEO
Association of Fundraising Professionals